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A PENALTY TAX ON PROGRESS

THE present drive to raise the income-tax exemptions and relieve millions of voters from the obligation to pay any income tax whatever is merely the latest illustration of how easily the progressive income tax can be turned into a demagogic weapon and a political football.

In the light of the ideological history of the tax, this development should not be too surprising. In the *Communist Manifesto* of 1848, "a heavy progressive or graduated income tax" is listed as the second point of a ten-point program that Marx and Engels demanded in order to make "despotic inroads on the rights of property" and as "unavoidable as a means of entirely revolutionizing the mode of production." In the course of time, "bourgeois" economists came to recommend such a tax in increasing numbers. But the excesses to which it has been carried (and which would have delighted Marx) have recently begun to produce a revulsion of feeling and thinking on the part of some economists who have had the courage to speak out.

A few years ago, for example, Harley L. Lutz of Princeton, arguing for a proportional income tax, contended that there was no logical stopping place to the progressive principle, based on the current specious form of the "ability to pay" theory, short of "complete equalization of incomes by confiscation of all incomes in excess of the lowest amount received by anyone." And more recently two University of Chicago lawyers, Walter J. Blum and Harry Kalven, Jr. (in "The Uneasy Case for Progressive Taxation," University of Chicago Press), and the economist F. A. Hayek, have subjected the progressive-income-tax principle to searching criticism.

Let's try to set down some of the main objections:

1—It is a dubious moral principle, an abuse of democracy, and an invasion of minority rights for a majority to impose on a minority a higher tax rate than it accepts for itself.

2—The legal requirement of time-and-a-half wage rates for overtime is based on the assumption that progressive incentives are necessary to get people to work longer and that progressive rewards are justified as the workload increases. But the present income tax is based on precisely the opposite principle of decreasing rewards for increasing work. Take, for hypothetical illustration, a top-level surgeon who averages $500 an operation and might take on 240 paid operations a year. This would bring his income before taxes to $120,000. For his first operation in January he would get and keep $500. Going into February he would only be earning net (after income tax) $310 per operation. Along about June he would be getting (net) only $140 an operation. And when he got into November he would be turning over $445 of every $500 fee to the government and getting only $55 for himself. Under the present income tax the same principle applies, if less dramatically, to the incomes of all of us. The more hours we work, the less we get paid per hour.

3—Under this system people are increasingly penalized as they become more productive. Inevitably this tends to kill incentives to production and reduces the total national income and living standards.

4—The progressive income tax skims off precisely the funds most likely to go into new investment—into building the new tools and equipment that increase the productivity of the country and lift the living standards of the workers. It slows down the rate of economic progress.

5—And lastly, these confiscatory rates do not even raise revenue. They destroy the sources of revenue. The great illusion of the present age is that through these confiscatory rates we have been able to throw the burden of huge government spending on to the very rich. But analysis shows that only 8 per cent of the personal income tax is paid by those making more than $100,000 a year, and only 16 per cent is paid by those making more than $50,000 a year. Looking at the matter from the other end, 74 per cent of the income tax is paid by people earning less than $25,000 a year, and 59 per cent of it is paid by people earning less than $10,000 a year.

HENRY HAZLITT, *Newsweek*, April 5, 1954

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